

Message Text

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E.O. 11652: N/A

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SUBJECT: POWER ARRANGEMENTS BETWEEN NEW YORK AND QUEBEC

1. SCOTT LILLY, GENERAL COUNSEL OF NEW YORK POWER AUTHORITY (NYPA), AND JOHN DAVISON, ASSOCIATE GENERAL COUNSEL, CALLED ON VINE MAY 6. PURPOSE WAS TO FILL DEPARTMENT IN ON PROPOSED POWER AGREEMENT BETWEEN NYPA AND HYDRO QUEBEC (HQ) BEFORE NEB HEARINGS ON CONTRACT BEGIN JUNE 1.

2. LILLY OUTLINED CONTRACT TERMS NOTING IT IS TWO-WAY PEAK PERIOD ARRANGEMENT FOR HQ TO SUPPLY FIRM AMOUNT OF 800 MW OF POWER TO NYPA OVER 7-MONTH SUMMER PERIOD AND FOR NYPA TO RETURN POWER OVER WINTER MONTHS IN AMOUNTS STILL UNSPECIFIED. HQ HAS POTENTIAL TO SUPPLY UP TO 1,500 MW AND NYPA TO RETURN UP TO 800 MW. CONTRACT PROVIDES FOR REVIEW AT END OF 5-YEAR PERIOD TO ENSURE THAT EXPECTATIONS RE COST AND AVAILABILITY HAVE BEEN REALIZED AND TO ALLOW REVISION IF POWER FLOW IN EACH DIRECTION IS NOT THEN MUTUALLY SATIS-

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FACTORY. FULL PERIOD OF CONTRACT IS 20 YEARS.

3. NYPA SAID CONTRACT TOOK ADVANTAGE OF SURPLUS POWER OF EACH PARTY AT TIME OF PEAK NEED OF OTHER, AND PROVIDED FAVORABLE PRICE FOR EACH--EQUIVALENT PRICE IN NEW YORK CITY WAS HIGHER THAN QUEBEC COULD GET INTERNALLY AND COST TO

NYPA WAS LESS THAN ALTERNATIVES FROM THERMAL GENERATION. NYPA IS ALSO CLOSE TO FINALIZING SUPPLEMENTARY CONTRACT WITH HQ FOR VARIABLE POWER WHICH THEY EXPECT WOULD BE EVEN MORE FAVORABLE, BUT ITS COMPLETION IS DEPENDENT ON APPROVAL FIRST OF FIRM CONTRACT BY NEB.

4. LILLY INDICATED ONLY REAL IMPEDIMENT TO AGREEMENT WHICH BOTH NYPA AND HQ WERE STRONGLY BEHIND, CAME FROM ONTARIO PROVINCE AND ONTARIO HYDRO. ONTARIO ENTITIES HAD TAKEN POSITION THEY MUST OPPOSE CONTRACT UNLESS GIVEN ASSURANCES THAT QUEBEC POWER OR EQUIVALENT COULD BE MADE AVAILABLE TO ONTARIO IN CASE IT HAD ENERGY SHORTFALL. ONTARIO CONCERNED PRIMARILY ABOUT COAL EXPORTS FROM U.S. FOR THERMAL GENERATION. NYPA HAD CONCLUDED THAT NEB POLICIES FAVORING CANADA AND LIMITING ENERGY EXPORTS TO SURPLUSES MADE AGREEMENT WITH ONTARIO ESSENTIAL AND HAD BEEN NEGOTIATING OVER LONG PERIOD. ARRANGEMENTS HAD BEEN NEARLY COMPLETED FOR RETURN OF POWER TO ONTARIO IN SUCCEEDING YEAR WHENEVER ENERGY AVAILABILITY IN PREVIOUS YEAR HAD FALLEN SHORT UNDER PRESCRIBED CONDITIONS AND IN AGREED AMOUNTS. HOWEVER, NEB REPORT OF MARCH 1976 WHICH PROVIDED BETTER PROTECTION IN ARRANGEMENT AFFECTING MANITOBA CONTRACT HAD CAUSED ONTARIO TO BACK OFF DEAL. ONTARIO PROVINCE AND POWER COMPANY BOTH PLAN TO INTERVENE IN NEB HEARINGS. NYPA IS CONCERNED THIS MAY CAUSE NEB TO SUBSTANTIALLY ALTER TERMS OF ITS CONTRACT.

5. LILLY SAID NYPA WANTED DEPARTMENT TO BE AWARE OF THE SITUATION IN ADVANCE OF NEB HEARINGS IN CASE SUBJECT CAME TO USG ATTENTION. NYPA IS MOST ANXIOUS TO COMPLETE THE CONTRACT AS NEGOTIATED. MAJOR MATERIAL PURCHASES HAD BEEN MADE FOR TRANSMISSION FACILITIES AND CONTRACT TERMS MEANT ANNUAL SAVINGS TO N.Y. CITY CONSUMER OF AROUND 60 MILLION DOLLARS OVER ALTERNATIVES. HQ HAD SUGGESTED THAT UNCLASSIFIED

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U.S. AMBASSADOR IN OTTAWA MIGHT ASSIST BY SAYING A WORD TO RIGHT PEOPLE IN CANADA, BUT LILLY SAID NYPA HAD NO OPINION AS TO WHETHER SUCH A MOVE WOULD BE HELPFUL.

6. VINE EXPLAINED THAT IN HIS VIEW DIRECT EFFORT BY AMBASSADOR FOR USG TO INFLUENCE DECISION WOULD BE VIEWED BY CANADIANS AS IMPROPER INTERVENTION IN REGULATORY PRO-

CESS AND MOST LIKELY WOULD BE STRONGLY COUNTER-PRODUCTIVE.
WE APPRECIATED BEING INFORMED OF SITUATION SINCE THIS
WOULD BE USEFUL SHOULD SUBJECT COME UP IN DISCUSSIONS
WITH GOC OR SHOULD OTHER APPROPRIATE OCCASION ARISE FOR
US TO MAKE SUPPORTIVE GESTURE.

7. COPIES OF NYPA CONTRACTS WITH HQ BEING POUCHED
EMBASSY FOR BUCHANAN. KISSINGER

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